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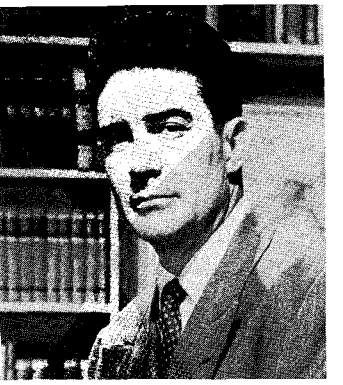

DAN SMOOT

STOP WITHHOLDING

On March 3, 1910, the Virginia Legislature debated the pending sixteenth constitutional amendment — which would allow the federal government to lay an unrestricted direct tax on the people. A resolution had been passed by the Sixty-first Congress (on July 12, 1909) to submit the Sixteenth Amendment to the states for ratification. Richard E. Byrd (Speaker of the Virginia House of Delegates, and father of the present Senator Harry F. Byrd) predicted that a federal income tax would become the destroyer of liberty and constitutional government. He said:

"The 16th Amendment means that the state must give up legitimate and long established sources of revenue and yield it to the Federal Government.

"It means that the state actually invites the Federal Government to invade its territory . . . and to establish Federal dominion within the innermost citadel of reserved rights . . . . A hand from Washington will be stretched out and placed upon every man's business . . . .

"Heavy fines imposed by distant and unfamiliar tribunals will constantly menace the taxpayer.

"An army of Federal inspectors, spies and detectives will descend upon the State. They will compel men of business to show their books and disclose the secrets of their affairs. They will dictate forms of bookkeeping. They will require statements and affidavits. On the one hand, the inspector can blackmail the taxpayer and on the other, he can profit by selling his secret to his competitor.

"When the Federal government gets a strangle hold on the individual businessman, state lines will exist nowhere but on the maps. Its agents will everywhere supervise the commercial life of the states."(1)

Virginia refused to ratify the Amendment; but three-fourths of the states did; and, on February 25, 1913, the Sixteenth Amendment was formally proclaimed a part of the Constitution. The American constitutional system was thereby radically altered. The federal government was no longer a *limited* government: it now had limitless access to the wealth of the people.

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The Roosevelt Years

Not until 20 years after the Income Tax Amendment was adopted did collectivists fully realize that they had acquired the means of converting the federal government into an all-powerful dictatorship. They needed a leader who could win support by convincing the people that collectivist policies would promote the general welfare.

Franklin D. Roosevelt was such a leader. The New Deal was not one year old, however, before the people began to realize that they *themselves,* and not "someone else," were being taxed for benefits which sounded good in a Fireside Chat but seemed a doubtful bargain when received.

Roosevelt was quick to realize that if you impose too much tax on the people to pay for the "benefits" promised, they tend to complain about the tax and forget the "benefits."

In an effort to safeguard the government's ability to offer more benefits without increased taxation, Roosevelt took two bold steps. He repudiated the government's pledge to redeem its own currency in gold, and made the people turn in their gold for a cheapened paper currency (vast quantities of which were pumped into the banking system); and he instituted an expedient system of deficit financing — borrowing from future generations to pay for handouts to present voters.

Deficit financing causes inflation. When it starts, inflation often seems to help the economy. Money is cheaper and more abundant; hence, people spend it more freely, thus stimulating economic activity. But, before long, older people living on pensions or fixed incomes and people living on salaries which were formerly adequate — all begin to suffer, because their incomes will not buy as much as before. Their dollars have been cheapened by inflation.

When this happened, New Deal politicians began to lose popularity they had bought by deficit financing to give the people benefits which were supposed to be paid for by someone else. Politicians, trying to appease voters, enacted minimum-wage laws, forcing some employers to pay wages above the free-market level. They gave international unions the sanction of law to force industry-wide wage raises. Such measures did give temporary relief to some voters who had been hurt by inflation. The relief vanished, however, and conditions grew worse when prices rose (as they had to do) to keep pace with wages which government was forcing upward.

The squandering of public funds, which deficit financing had, for a while, made painless, began to hurt worse than taxes. Politicians were forced to impose heavier taxes. Soon, people began to realize that free benefits from government were very expensive indeed, because federal taxes were costing more than food, clothing, or other essentials of life. How can you keep taxpayers from rebelling when taxes hit so hard? One way is to take their money away from them a little at a time, before they ever get their hands on it. Never having possessed or even seen the money, many taxpayers never realize that it actually is taken away from them.

In 1941, the late Beardsley Ruml (a New Deal economist) devised such a plan — the withholding tax, a pay-as-you-go system which forces the employer to collect income tax before the employee gets his salary check.[2]

President Roosevelt and his Secretary of the Treasury (Henry Morgenthau) were delighted with the Ruml plan. It seemed a perfect way to eliminate popular complaints against high and rising taxes: make tax-paying so painless that taxpayers would not realize their taxes were high and rising.

There was a flaw in the scheme: it is unconstitutional.

The Thirteenth Amendment says:

"Neither slavery nor involuntary servitude, except as a punishment for crime whereof the party shall have been duly convicted, shall exist within the United States . . . ."

Slavery and involuntary servitude mean, essentially, forcing someone, against his will, to work or serve.

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When an employer is forced to serve as tax collector and bookkeeper for the government — without payment for his time and expense, and under threat of severe penalty for error in observing complicated and profuse administrative rules and requirements — most certainly involuntary servitude has been imposed on him by his own government.

The Fifth Amendment says:

". . . nor shall any person be . . . deprived of life, liberty, or property, without due process of law . . . ."

If you compel employers to deduct money from employees' pay checks for taxes that are not due when the deductions are made; and if (as is the case with more than half of all wage earners) you compel the deduction of more money than the employee will owe when his taxes are due — you certainly are depriving those employees of their property (money), without due process of law.

Roosevelt, Morgenthau, and Ruml — anticipating that Congress might reject a taxing scheme which did such violence to our Constitution — appointed a group of experts (76 learned economists) to prepare a study which would show the men of Congress that a withholding tax is necessary in the modern world, regardless of what the Constitution provides. New Deal economists presented such a study in the spring of 1941, but the House Ways and Means Committee rejected the withholding tax plan anyway.

In November, 1941, Secretary Morgenthau made a direct plea to the Ways and Means Committee for a withholding tax. Again the Committee refused; but in December, 1941, the United States went to war; and President Roosevelt had an "emergency" with which to intimidate Congress.

Early in 1942, Morgenthau again asked Congress for a withholding law. This time, he asked only for a "war emergency" measure — not a *permanent* withholding tax system.

He called it a "Victory Tax," a *temporary* system to help the war effort.

This approach was successful. The Revenue Act of 1942 (October 21, 1942) authorized a five percent Victory Tax on gross incomes — to be withheld from salaries.

The Current Tax Payment Act of 1943 (June 9, 1943) absorbed the temporary withholding provision for the Victory Tax, making it permanent and applicable to all federal tax on personal incomes.[3]

The Hand from Washington

In November, 1959, the House Ways and Means Committee (tax-writing committee of Congress) began formal hearings on the problem of revising our federal taxing system. Witnesses from labor unions, universities, businesses and governmental agencies generally agreed that the system is an appalling mess of complicated inequities; that it stifles initiative, wastes human energy and resources, distorts the national economy, and has a corrupting and debasing effect on taxpayers.

As the great Virginian anticipated in 1910, that Hand from Washington now reaches deep into every pocket in the nation. An army of federal inspectors, spies, and detectives has descended upon the states to pre-empt their legitimate sources of revenue, to menace and blackmail some taxpayers, grant favors to others, and dictate forms of bookkeeping. Through the corrupt and despoiling income tax system, the federal government, as was predicted 53 years ago, has a strangle hold on the economy. Yet, all efforts at reform fail, or miscarry. This is inevitable, because the tug of special interests makes reform impossible.

Remember the books which Harry Truman and Dwight Eisenhower wrote? Other people pay ordinary income tax on the proceeds of what they write. Sometimes a writer struggles for years, losing money on every book, eating up his savings; and then, one year, a book succeeds and earns $100,000.00. The government takes most of it for income tax: no allowance for years of loss behind, or for lean years ahead.

When Truman and Eisenhower wrote books that earned hundreds of thousands of dollars, the Internal Revenue Service gave special dispensation.

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Eisenhower and Truman were permitted to report earnings on their books not as ordinary income but as capital gains. The legal pretext? Internal Revenue ruled that Truman and Eisenhower were not professional writers: they were amateurs.

In 1959, the Internal Revenue Service made a deal which enabled Walter Reuther to settle a thirty-one thousand dollar federal tax claim for six hundred and fifteen dollars — and enabled 526 other officers of the UAW-CIO to settle more than three million dollars in federal tax claims for less than one hundred thousand dollars.[4]

Such favoritism for *special* taxpayers obviously places a heavier burden on all other taxpayers. Yet, there was hardly a ripple of protest about the cases involving Truman, Eisenhower, and Walter Reuther. Such cases merely stimulate more activity by other special persons and special interest groups to get special consideration for themselves. Thus, powerful and influential people and groups in our society develop a vested interest in the corrupt and inequitable system: if *they* can get special favors, *they* will be all right — and the tax collectors can get what they demand from others. Why do the *others* put up with it? Most of the federal income tax is collected through withholding. Hence most federal taxpayers are relatively indifferent about taxes. Withholding conceals the fact that *they* are paying for favoritism, extravagance, waste, corruption, and subsidies to foreign dictators.

Withholding is the Keystone

Though clearly unconstitutional and though originally adopted as a temporary emergency measure during World War II, the withholding law has remained a permanent, and *essential,* feature of the federal income tax system. It is the keystone which keeps the system from collapsing. It is the perfect means of keeping taxpayers complacent and indifferent about taxes.

A man does not need to save and manage so that, at the end of the year, he can give government 25% or 40% or 50% of his earnings for the whole year. All of that has been done by the employer, at the *employer's* expense. The average worker pays little attention to tax deductions from his paycheck. He adjusts himself to his take-home pay. If that sum is insufficient, he and his family resent the employer, not government. They do not demand lower taxes: they demand higher wages. Not only the expense, but the *stigma,* of tax collecting is placed on employers, rather than on government.

The withholding tax system can, indeed, make taxes pleasant. Internal Revenue Service schedules require employers to deduct (more often than not) more taxes than the employee owes. At the end of the year, government sends the employee a rebate — a bonus, bigger, in millions of cases, than any bonus the employer can give. Thus, beneficent government gives back to workers a portion of the money which employers take away from them.

Throughout the United States, employers have, for years, tried to find some means of showing employees how they are being robbed by federal taxes.

Some employers distribute special notices with all pay checks, calling specific attention to how much the federal government has compelled the employer to take away from the employees, and enumerating some of the preposterous and harmful federal programs that the employees' money is paying for.

Some employers pay employees their full wages at one window, requiring them to go to another window and pay back the amount which the federal tax collectors demand as their share of every man's wages.

A. G. Heinsohn, Jr., owner and manager of Cherokee Textile Mills in Sevierville, Tennessee, recently used a novel means of dramatizing the tax load which his employees are carrying. On one pay day at Cherokee, each employee was given a plastic bag containing, in silver dollars, the amount taken out of his check that day for federal taxes. The employee could take the money home and spend it, but had to pay it back next pay day.

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All such efforts do some good, but not enough. When *all* wage earners are allowed to collect their full wages throughout the year and are then required, at the end of the year, to pay their own federal income tax in one sum — then, and only then, will *all* wage earners fully realize what the federal tax collectors are doing to them.

A man who makes $5000.00 a year and has two deductions for dependents can adjust himself to $12.80 withheld for federal income tax each week. But let him take all of his earnings home each week; and then, at the end of the year, let him face the problem of raising $665.60 to pay his federal income tax. This would create chaos for the tax collectors and produce more tax delinquencies than the collectors could count. It would create widespread rebellion against oppressive federal taxes, and put the American people on the road to recapturing control of their own government.

On April 30, 1962, United States Representative Bruce Alger (Republican, Texas) introduced a bill to eliminate the withholding of income tax from wages and salaries. Mr. Alger said:

"We have lost all control over spending in this country . . . . Since the great burden of taxes is borne by the so-called little or modest-income folks, I think it is high time that they found out how much taxes they are paying. In order to do that, I think we ought to let them pay their own . . . . It seems to me timely and sensible that the American citizens demand a halt to the continuation of the *tax-tax, spend-spend, elect-elect* policy. This repeal of the withholding tax will be the means of beginning the necessary and agonizing reappraisal."

Alger's bill died in committee, because there was not enough public interest.

Current Efforts

Representative Bruce Alger reintroduced, in the present Congress, his bill to eliminate the withholding of income tax from wages and salaries. Pending in committee, as HR 739, it merits massive public support.

Failure of Congress to repeal the withholding tax, so that all taxpayers will become conscious of federal taxes, has stimulated private efforts to accomplish the same purpose.

Mr. Norman L. Cotton, a businessman in San Francisco, California, and the New York Committee for Economic Freedom in Syracuse, New York, contemplated efforts at persuading all employers to go on strike against serving as unpaid tax collectors for the federal government. The basic idea was that if enough employers throughout the nation would refuse to withhold federal taxes from employees' wages, the withholding system would collapse. The federal government could prosecute every employer who thus refused to obey the unconstitutional withholding law and the rules and regulations of the Internal Revenue Service; but if enough employers stood firm and acted in unison, the federal government, unable to prosecute all, might not prosecute any; and the withholding law would be unenforceable. This idea was abandoned because of the extreme difficulty of getting enough businessmen to take the risk.

Meanwhile, another, *immediately* effective plan is already in operation.

Federal regulations require employers to deposit in a designated bank the total of all federal taxes withheld from wages. The deposit must be made once a month, for all withholdings during the month. Employers habitually prorate the monthly tax withholding so that the same amount is taken out each pay day, and employees never fully realize what it would be like to get full pay checks.

In 1962, one employer in Parkersburg, West Virginia (Mr. A. K. Summers, President of Premier Photo Service), started collecting federal taxes (social security and withholding) only once a month. Mr. Summers says:

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"Mrs. A — whose salary is $125 a week — under the system of weekly deductions, would draw $99.29 a week, and she just took it for granted that was what she was making. Now, under our system of collection, she draws $125 the first three weeks of the month; and the last week, $22.68. Three weeks she went to the bank and actually received $125. She had it in her hands and was able to spend it. Now she realizes she pays in taxes almost a full week's pay out of a month."

Some employees pay *more* than one full week's pay out of each month. Mr. Summers says that one of his 70-dollar-a-week employees gets no check at all the fourth week of each month — and still owes the federal government $4.75 for the month. Once-a-month-only withholding makes the biggest impression on employees who get a pay check each week; but it has considerable impact on those who are paid only twice a month. I know, because I use the plan for employees of *The Dan Smoot Report.* In the middle of the month, each employee on my small staff receives a full salary check— nothing taken out. At the end of the month, he gets a dismally shrunken check — thanks to federal withholding. I agree emphatically with Mr. Summers:

" . . . our employees now realize that this wild federal spending is coming out of their pockets."

A national organization has been formed to promote the Summers once-a-month-only withholding plan. The organization is called S.W.A.T. — Stop Withholding All Taxes. The top officials are Mr. Laurence C. Smith, 124 Headson Drive, Syracuse 14, New York; Mr. A. K. Summers, President of Premier Photo Service, Inc., 515 - 33rd Street, Parkersburg, West Virginia; Mr. A. J. Porth, P. O. Box 7083, Wichita, Kansas; and Mr. Arnold Bayley, Sea Spray Inn, East Hampton, L. I., New York. National headquarters of S.W.A.T. is at Parkersburg, West Virginia (P. O. Box 1707).

Organized as "A Civil Rights Program For Employers," S.W.A.T. will try to persuade employers (of all sizes, in all kinds of business, in all parts of the nation) to adopt the once-a-month-withholding plan for all employees. Initial response encourages officials of S.W.A.T. to predict that 100,000 employers will have adopted once-a-month-withholding by January 1, 1964.

S.W.A.T. will co-ordinate its once-a-month-withholding work with organized efforts for outright repeal of the Sixteenth (income tax) Amendment.

What To Do

The federal income tax takes our money to nourish forces which are sapping our freedom and destroying our Republic, but there is no way to reform the tax system. It must be abolished. Abolishing the federal income tax system would solve most of the major political and economic problems of our nation. If we get the federal tax collectors' hands out of our pockets so that Washington spenders cannot get enough of our money to pay for destructive, unconstitutional programs, we can save the Republic.

United States Representative James B. Utt (Republican, California) has proposed a constitutional amendment which woud repeal the Sixteenth Amendment and require the government to stop competing in business with its own citizens.

There is tremendous public support for such a repeal amendment and a considerable amount of organized effort behind it; and the movement is growing; but the arrogance and illegal power of government are growing faster. Constitutionalists could win this race for time and create an overpowering demand for repeal of the income tax amendment before it is too late, if they could persuade Congress to repeal the law which authorizes withholding of income tax from wages and salaries.

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While working for congressional action, constitutionalists can accomplish a very great deal by supporting such efforts as the once-a-month-withholding plan of S.W.A.T. Here are specific things that individuals can do:

— If you are an employer, adopt the once-a-month-withholding plan for all of your employees. Communicate with S.W.A.T. officials, P. O. Box 1707, Parkersburg, West Virginia, to let them know you are participating in the plan, and to get additional details on what other employers are doing. Consider deeply the advisability of joining with others to give the strength of numbers and organization to tax-repeal efforts.

— If you are not an employer, use this *Report* (or other available material) to arouse active interest in acquaintances who are employers. If you cannot do this, write to S.W.A.T., giving names of employers who you think will be interested.

— Write to your United States Representative urging his support for Bruce Alger's Bill (HR 739) to eliminate the withholding of income tax from wages and salaries. Use this *Report* (or other material) to persuade friends, acquaintances, business associates, and organizations to do the same with their United States Representatives.

Where Your Tax Money Will Go

The following column by Kingsbury Smith (syndicated by Hearst, with a Paris dateline, August 6, 1963) indicates where some of your money may go, if we do not manage somehow to repeal the income tax amendment:

"Diplomatic sources in Paris said today that President Kennedy has held out to Soviet Premier Nikita Khrushchev the implied hope of American economic aid to Russia if the Soviet Union abandons the Cold War and agrees to a general European settlement.

"This effort to encourage Khrushchev to turn away from Red China and swing Russia towards the West was made before the conclusion of the nuclear test ban agreement.

"It was not a commitment, nor even a definite promise. Nor was it made in any formal diplomatic communication.

"Nevertheless, the diplomatic sources said the President let Khrushchev know that the United States might be willing to help Russia with economic aid to hasten an improved standard of living for the Russian people if a satisfactory settlement in Europe was achieved.

"Khrushchev was reminded that under the Truman Administration, the United States had offered to include Russia in the Marshall Plan for the reconstruction of war torn Europe. He

WHO IS DAN SMOOT?

Born in Missouri, reared in Texas, Dan Smoot went to SMU in Dallas, getting BA and MA degrees in 1938 and 1940. In 1941, he joined the faculty at Harvard as a Teaching Fellow in English, doing graduate work for a doctorate in American Civilization.

In 1942, he left Harvard and joined the FBI. As an FBI Agent, he worked for three and a half years on communist investigations in the industrial Midwest; two years as an administrative assistant to J. Edgar Hoover on FBI headquarters staff in Washington; and almost four years on general FBI cases in various parts of the nation.

In 1951, Smoot resigned from the FBI and helped start Facts Forum. On Facts Forum radio and television programs, Smoot spoke to a national audience, giving *both* sides of controversial issues.

In July, 1955, he resigned and started his present independent publishing and broadcasting business — a free-enterprise operation financed entirely by profits from sales: sales of *The Dan Smoot Report,* a weekly magazine; and sales of a weekly news-analysis broadcast, to business firms, for use on radio and television as an advertising vehicle. The *Report* and the broadcast give only *one* side in presenting documented truth about important issues — the side that uses the American Constitution as a yardstick. The *Report* is available by subscription; and the broadcasts are available for commercial sponsorship, anywhere in the United States.

If you think Dan Smoot is providing effective tools for Americans fighting socialism and communism, you can help immensely — by helping him get more customers for his *Report* and broadcasts.

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was also reminded that at the time, General Marshall, then Secretary of State, had described his concept of Europe as all the territories 'west of Asia.'

"It was clearly indicated to Khrushchev that the Kennedy Administration feels the same way the Truman Administration did at that time, and that while Stalin rejected the offer, now might be the time for Khrushchev to reconsider linking Russia with Europe instead of Asia.

"This would not mean that Russia would have to renounce the Communist system. President Kennedy has assured Khrushchev that the United States is not hostile to any people or system, provided they do not interfere with the freedoms of others.

"Khrushchev knows, however, that the President's conception of a satisfactory European settlement does not mean the recognition of the existing status quo.

"If Khrushchev wants American economic aid for Russia, the European settlement, to which he agrees must include the unification of Germany based on free elections.

"It would be folly to think, and the President certainly does not, that Khrushchev is likely to agree, or could if he would, to give up Communist control of East Germany in the near future. He has said he will never give it up.

"However, it is thought that in view of the bitter break between Khrushchev and the Chinese Communist leadership, the time may be opportune to indicate to Russia the long-range advantage of becoming part of a prosperous Europe.

"Communism has proved a failure economically in Eastern Europe. Khrushchev is known to be deeply concerned about the failure of the agricultural policy in the Soviet Union, and the high cost of the arms race."

FOOTNOTES

(1) "What a Prophet—Richard E. Byrd," article by George Peck, *The American Statesman,* March 15, 1961, p. 4

(2) Beardsley Ruml was a member of the Council on Foreign Relations, a director of Macy's, Muzak, Bulova Watch Co. and the Federal Reserve Bank of New York; and member of the Commission on Money and Credit which formed the basis for President Kennedy's major legislative proposals in 1962. Also see "Ruml's Effect on Our Way of Life," *The San Francisco Chronicle,* April 20, 1960, p. 30.

(3) Special study on the general history of the withholding tax system—from the study of the 76 economists presented to the House Ways and Means Committee in the spring of 1941, to enactment of the Current Tax Payment Act of 1943—prepared for former United States Representative Gordon Scherer (Republican, Ohio) by the Library of Congress, September, 1959

(4) Associated Press dispatch from Detroit, October 6, 1959

WHAT YOU CAN DO

Washington officialdom uses your taxes for programs that are creating vast cesspools of waste and corruption — and dragging our Republic into the quicksands of socialism. What can you do about it?

You can help educate and arouse the people who elect men responsible for harmful programs of government. When enough other Americans know and care as you do, political action to restore our Republic will come.

If *The Dan Smoot Report* was instrumental in bringing you to the point of asking what *you* can do about saving the country from mushrooming big government, here is a checklist for you: Have you urged others to subscribe to the *Report?* Have you sent them reprints of a particular issue of the *Report?* Have you shown them a Dan Smoot film? Have you ever suggested a Bound Volume of *The Dan Smoot Report* for use by speakers, debaters, students, writers? Have you read and passed on to others any of the Dan Smoot books — *The Invisible Government, The Hope Of The World, America's Promise?*

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